

Message Text

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C O N F I D E N T I A L STATE 206184

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EXDIS

E.O. 11652: GDS
TAGS: EGEN, OECD
SUBJECT: TELEGRAM CLEARANCE

FOR ERNEST PREEG ONLY FROM HARTMAN

REQUEST YOU CLEAR DRAFT CABLE BELOW WITH COOPER. IF
COOPER'S CLEARANCE OBTAINED, CABLE WILL BE SENT BY STATE
TO ALL OECD CAPITALS AND NATO. PLEASE SLUG REPLY FOR
EUR DISTRIBUTION ONLY.

1. RECENT CONVERSATIONS WITH EUROPEAN OFFICIALS AS WELL
AS REPORTING ON THE ALPBACH MEETING IN AUSTRIA ON THE
EUROPEAN MONETARY AND FINANCIAL SITUATION INDICATE THAT
MANY EUROPEANS LACK CONFIDENCE IN EUROPE'S ABILITY TO COPE
EFFECTIVELY WITH ITS OWN ECONOMIC PROBLEMS. THERE SEEMS
TO BE A GROWING BELIEF THAT THESE PROBLEMS REQUIRE COOPERA-
TION WITH THE U.S. AND THAT U.S. INITIATIVE AND LEADERSHIP
IS INCREASINGLY DESIRED. HOWEVER, THIS DESIRE SEEMS
QUALIFIED BOTH BY THE OLD AMBIVALENCE ABOUT U.S. LEADER-
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SHIP AS WELL AS BY A CONCERN THAT THE U.S. IS INSUFFI-

CIENTLY CONCERNED WITH EUROPE'S PROBLEMS TO TAKE THE NECESSARY CONCRETE AND FAR-REACHING STEPS TO HELP. THIS TELEGRAM GIVES OUR CURRENT REACTION TO THESE ISSUES FOR THE GUIDANCE OF POSTS.

2. WE WOULD AGREE THAT ECONOMIC PROBLEMS FACING EUROPE,

NORTH AMERICA, AND JAPAN TOGETHER HAVE GROWN TO BE OF CENTRAL IMPORTANCE IN THE PAST YEAR. THESE PROBLEMS INCLUDE RAMPANT INFLATION, PAYMENTS IMBALANCES, AND STRAINS IN THE INTERNATIONAL BANKING SYSTEM IN COPING WITH THE INFLOW OF PETRODOLLARS. SOME INDUSTRIALIZED COUNTRIES ARE IN A NEW POSITION OF DOUBTFUL CREDIT-WORTHINESS WHILE SOME FORMER LDCS WHICH EXPORT OIL ARE ABLE TO EXTEND CREDIT TO BOTH OECD MEMBERS AND LESS FORTUNATE LDCS. MANY OF THE ECONOMIC BENCHMARKS AND ASSUMPTIONS THAT GUIDED INDUSTRIALIZED COUNTRIES SINCE THE SECOND WORLD WAR HAVE LOST MUCH OF THEIR VALIDITY. SKEPTICISM THAT POLITICAL LEADERS AND EXISTING INSTITUTIONS CAN ACT EFFECTIVELY TO COPE WITH THESE PROBLEMS MAKE GOVERNMENTS VULNERABLE TO POLITICAL EXTREMES OF THE RIGHT AND LEFT. WE DO INDEED SEEM TO FACE A CRISIS OF CONFIDENCE.

3. THE CENTRAL QUESTION IS THUS WHETHER WE CAN MARSHALL THE WILL AND CAPACITY TO TURN THE INTERDEPENDENCE OF THE HIGHLY INDUSTRIALIZED COUNTRIES TO OUR MUTUAL ADVANTAGE IN DEALING WITH MAJOR PROBLEMS AND SHARPLY CHANGED CIRCUMSTANCES.

4. IN FACT, THE U.S. HAS RECENTLY BEEN PLAYING A LEADING ROLE IN A NUMBER OF SIGNIFICANT INITIATIVES TO DEAL WITH THE NEW PROBLEMS AND CIRCUMSTANCES THAT WE JOINTLY FACE. MOST NOTABLE PERHAPS IS THE ENERGY COORDINATING GROUP (ECG) SET UP IN CONJUNCTION WITH OUR EUROPEAN PARTNERS, CANADA AND JAPAN AT THE WASHINGTON ENERGY CONFERENCE IN FEBRUARY. THE ECG'S EFFORTS IN BRUSSELS DURING PAST MONTHS HAVE NOW BROUGHT THE GROUP TO THE FINAL STAGES OF AGREEMENT ON AN INTERNATIONAL ENERGY PROGRAM (IEP). WE EXPECT THE IEP TO BE AGREED AND IN PLACE BY NOVEMBER, CONFIDENTIAL

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PROVIDING THE MEMBERS WITH CONSIDERABLE PROTECTION

AGAINST THE TYPE OF STRAINS CAUSED BY THE OIL CRISIS OF LAST FALL.

5. IN THE AREA OF FINANCE THE U.S. HAS ACTIVELY PARTICIPATED IN VARIOUS STEPS DESIGNED TO ENABLE THE IMF TO DEAL MORE EFFECTIVELY WITH CURRENT PROBLEMS. THESE

INCLUDE THE ESTABLISHMENT OF THE IMF OIL FACILITY, USING FUNDS BORROWED FROM OIL EXPORTERS TO HELP COUNTRIES DEAL WITH OIL-RELATED DEFICITS, AND THE EXTENDED FUND FACILITY, APPROVED LAST WEEK, TO HELP LDCS WITH LONG-TERM STRUCTURAL BALANCE OF PAYMENTS PROBLEMS. THE OIL FACILITY IS NOW IN OPERATION WITH BORROWINGS OF 2.8 BILLION SDR, AND SEVERAL DRAWINGS HAVE ALREADY BEEN MADE. WE HAVE ALSO CONSULTED TOGETHER REGULARLY WITH FINANCIAL AND

CENTRAL BANKING AUTHORITIES OF OTHER COUNTRIES, INCLUDING THE RECENT MEETINGS IN PARIS AND BASEL, FOR STRENGTHENING THE ABILITY OF INTERNATIONAL BANKS TO WITHSTAND THE CURRENT STRAINS.

6. THERE IS A GREATER CURRENT PAYMENTS IMBALANCE WITHIN EUROPE THAN ACROSS THE ATLANTIC. IT IS THEREFORE DESIRABLE AND LOGICAL THAT THERE BE A FIRM COMMITMENT BY EUROPEAN COUNTRIES TO HELP STRENGTHEN EACH OTHER IN THE AREA OF FINANCING PAYMENTS AS IN OTHER AREAS. WE CONTINUE TO SUPPORT SUCH STEPS AND TO BE COMMITTED TO THE STRENGTH AND VIABILITY OF WESTERN EUROPE BASED ON A GROWING EUROPEAN UNITY WITHIN THE ATLANTIC COMMUNITY.

7. WE ARE DETERMINED TO TAKE THE NECESSARY ACTIONS AND INITIATIVES IN CONCERT TRILATERALLY WITH THE INDUSTRIALIZED COUNTRIES OF WESTERN EUROPE AND JAPAN TO BRING THE WORLD ECONOMY THROUGH THIS DIFFICULT PERIOD OF IMBALANCE AND INSTABILITY.

8. FACED WITH THESE CHALLENGES, WE ARE OPEN TO IDEAS AND INITIATIVES. WE REALIZE THIS IS A TIME TO THINK CREATIVELY.

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9. THE DEPARTMENT WOULD WELCOME FURTHER REPORTING BY POSTS ON THE PROBLEMS AND ISSUES RAISED. KISSINGER

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